

Tennessee Housing Development Agency

**For the Year Ended
June 30, 2000**

Arthur A. Hayes, Jr., CPA, JD, CFE
Director

Edward Burr, CPA
Assistant Director

Teresa L. Hensley, CPA
Audit Manager

Carla B. Wayman, CPA
In-Charge Auditor

Melissa Anderson
Ron Crozier
Danisha R. Jones
Jay Moeck
Staff Auditors

Gerry C. Boaz, CPA
Technical Analyst

Amy Brack
Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

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**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

February 16, 2001

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Tennessee Housing Development Agency
and
Ms. Janice L. Myrick, Executive Director
Tennessee Housing Development Agency
404 James Robertson Parkway, Suite 1114
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Housing Development Agency for the year ended June 30, 2000. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/mb
00/092

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee Housing Development Agency
For the Year Ended June 30, 2000

AUDIT OBJECTIVES

The objectives of the audit were to consider the agency's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, please contact

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Audit Report
Tennessee Housing Development Agency
For the Year Ended June 30, 2000

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Tennessee Housing Development Agency For the Year Ended June 30, 2000

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Housing Development Agency. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The Tennessee Housing Development Agency is a corporate governmental agency of the State of Tennessee and was established in 1973 under the provisions of Title 13, Chapter 23, *Tennessee Code Annotated*. The agency was created to increase available funds for the financing of residential housing for low- and moderate-income households. It is authorized to issue bonds and notes to provide such financing. These bonds and notes are payable solely from the agency’s revenues and assets and are not general obligations of the state or of any of the state’s political subdivisions.

The agency’s affairs are directed by a 19-member board of directors and are administered by an executive director. Directors of the agency serving *ex officio* are the State Treasurer, the Comptroller of the Treasury, the Commissioner of Finance and Administration, the Secretary of State, and a staff assistant to the Governor. Of the remaining 14 members, 12 are appointed by the Governor. The Speaker of the House of Representatives and the Speaker of the Senate each appoint one member. Of the 12 members appointed by the Governor, nine are required to be representatives of the housing, home-building, real estate, and mortgage-lending professions. The Governor appoints one additional member from each of the three grand divisions of the state; these three are representatives of the public at large.

ORGANIZATION

The agency comprises 12 divisions, each of which is managed by a division director. The executive; research, planning, and technical services; multi-family and special programs; and internal audit divisions report directly to the executive director. The production divisions—community programs, mortgage administration, homeownership mortgage, Section 8 Rental Assistance, and Section 8 Contract Administration—report to the deputy executive director. The financial and administrative support divisions—finance, management information systems, and fiscal administration—report to the chief financial officer.

Executive Division - This division is responsible for program development, legal affairs, public relations, and personnel.

Research, Planning, and Technical Services Division - This division provides technical assistance to agencies, firms, and individuals; works with other agencies to coordinate community development activities; and conducts and oversees research on housing issues.

Multi-family and Special Programs Division - This division administers the Low Income Housing Tax Credit Program for developers of rental properties and allocates multi-family bond authority to local issuers for a specific development.

Internal Audit Division - This division performs internal audits of all agency programs, grants, and servicing institutions, and is responsible for long-term compliance of the HOUSE, HOME, and Tax Credit Program.

Community Programs Division - This division is responsible for the federal HOME Investment Partnerships Program and the state Housing Opportunities Using State Encouragement (HOUSE) program, which provide funds for locally designed housing efforts.

Mortgage Administration Division - This division oversees the collection of loans for the agency. The division provides full in-house servicing of multi-family loans. Single-family loans are serviced by approved servicing agents under the direction of the mortgage administration division.

Homeownership Mortgage Division - This division provides the link between funds available for single-family home loans and the individual prospective homeowners through the development of a statewide network of participating lenders and the underwriting of loans for qualified applicants.

Section 8 Rental Assistance Division - This division administers the Section 8 Housing Choice Voucher Program. The division's functions include administering housing assistance payment contracts, and monitoring and inspecting units (houses, apartments, mobile homes) on an annual basis.

Section 8 Contract Administration Division - This division serves as the contract administrator for "project-based" Section 8 housing assistance payments under contract with the U.S. Department of Housing and Urban Development. Project-based contracts provide rental subsidies to specific rental properties.

Finance Division - This division is responsible for cash management of the agency. This division's major functions are debt management and investment of funds.

Management Information Systems Division - This division is responsible for developing, implementing, and maintaining the agency's computer systems.

Fiscal Administration Division - This division is responsible for bond, state, and federal accounting; financial reporting; and general administrative areas such as purchasing and fiscal budget planning.

The agency presents a financing proposal each fiscal year for the State Funding Board's approval. The bond finance committee of the Tennessee Housing Development Agency's board of directors sells bonds and notes on behalf of the agency.

An organization chart for the Tennessee Housing Development Agency is on the following page.

AUDIT SCOPE

The audit was limited to the period July 1, 1999, through June 30, 2000, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 2000, and for comparative purposes, the year ended June 30, 1999. The Tennessee Housing Development Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

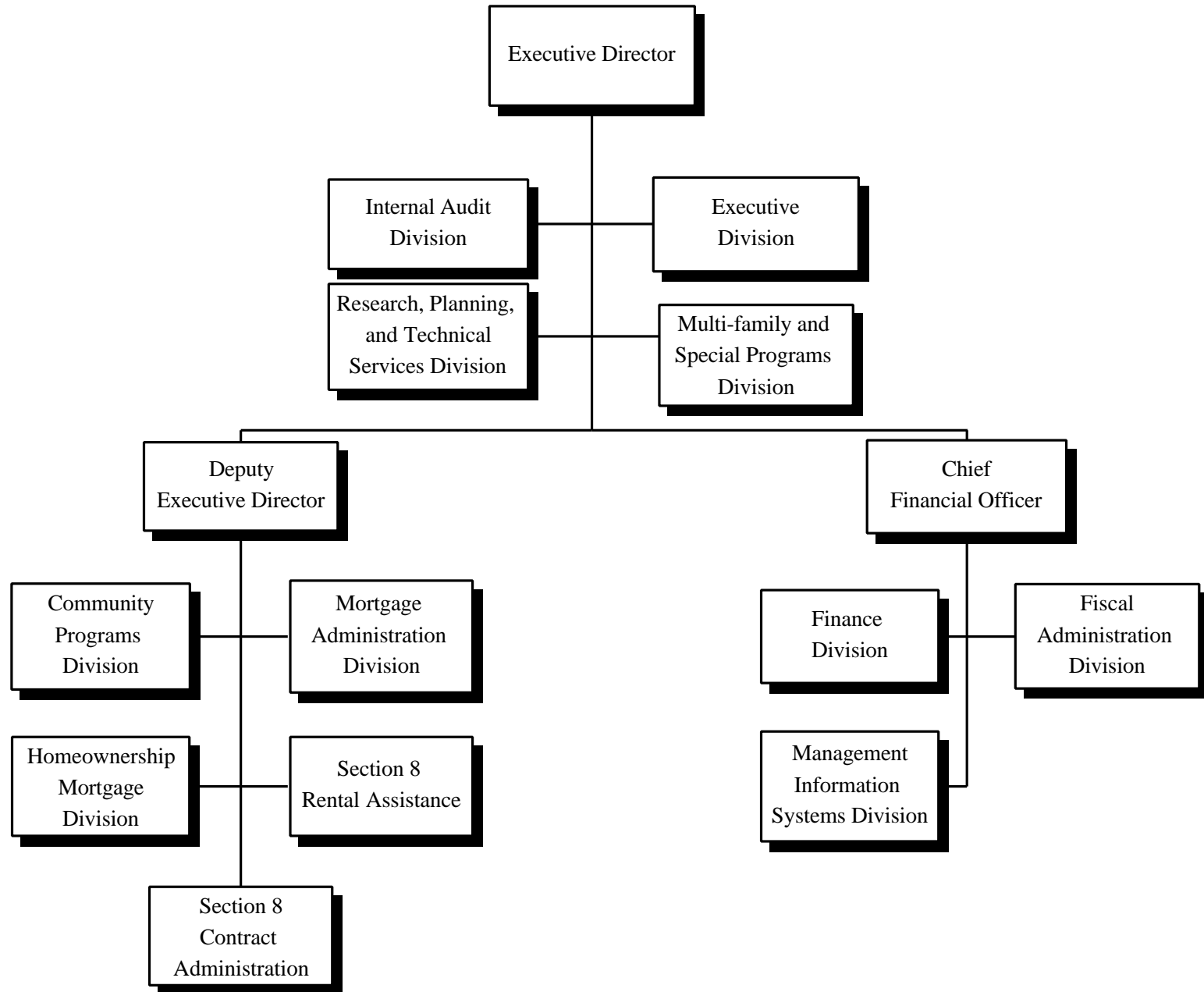
The audit covered fund 13 of the State of Tennessee Accounting and Reporting System (allotment code 316.20).

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the agency's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;

Tennessee Housing Development Agency Organization Chart



3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

Tennessee Code Annotated, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. The Tennessee Housing Development Agency filed its compliance report and implementation plan on June 29, 2000.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

On October 15, 1998, the Commissioner of the Department of Finance and Administration notified all cabinet officers and agency heads that the Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Tennessee Housing Development Agency's financial statements for the year ended June 30, 2000, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the agency's financial statements.



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 741-3697
FAX (615) 532-2765**

**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

November 13, 2000

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2000, and have issued our report thereon dated November 13, 2000. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of the agency's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The Honorable John G. Morgan
November 13, 2000
Page Two

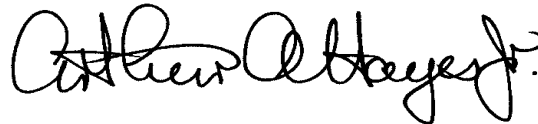
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting, which we have reported to the agency's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr.", with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/mb



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 741-3697
FAX (615) 532-2765**

Independent Auditor's Report

November 13, 2000

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of June 30, 2000, and June 30, 1999, and the related statements of revenues, expenses, and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2000, and June 30, 1999, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

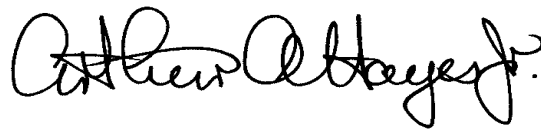
The Honorable John G. Morgan
November 13, 2000
Page Two

As discussed in Note 10 to the financial statements, the agency changed its method of reporting bond issuance costs and reserved retained earnings.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements, taken as a whole. The other supplementary information on pages 29 through 33 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2000, on our consideration of the agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." in a cursive style.

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/mb

TENNESSEE HOUSING DEVELOPMENT AGENCY
BALANCE SHEETS
JUNE 30, 2000, AND JUNE 30, 1999
(Expressed in Thousands)

	2000	1999
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 119,938	\$ 260,892
Short-term investments (Note 2)	244,434	145,594
Receivables:		
Accounts	8,438	13,462
Interest	19,706	18,517
First mortgage loans	28,408	23,845
Total current assets	420,924	462,310
Other assets:		
Long-term investments (Note 2)	391,624	432,161
First mortgage loans receivable	1,496,549	1,212,048
Deferred charges (Note 10)	12,683	12,230
Other receivables	18	21
Total other assets	1,900,874	1,656,460
Fixed assets:		
Office furniture and fixtures	71	498
Less: accumulated depreciation	(51)	(388)
Total fixed assets	20	110
Total assets	\$ 2,321,818	\$ 2,118,880
<u>LIABILITIES AND EQUITY</u>		
Liabilities:		
Current liabilities:		
Warrants payable	\$ 1,691	\$ 1,225
Checks payable (Note 3)	3,145	8,399
Accounts payable and accruals	8,201	8,335
Due to primary government	38	37
Interest payable	50,595	42,883
Escrow deposits payable	14,301	17,077
Prepayments on mortgage loans	2,037	1,364
Notes payable (Note 4)	31,180	65,235
Deferred revenue	2,158	828
Bonds payable (Note 4)	115,110	199,859
Total current liabilities	228,456	345,242
Noncurrent liabilities:		
Bonds payable (Note 4)	1,763,759	1,449,684
Less: Unamortized bond refunding costs	(6,208)	(5,241)
Total noncurrent liabilities	1,757,551	1,444,443
Total liabilities	1,986,007	1,789,685
Equity:		
Contributed capital (Note 5)	2,500	2,500
Retained earnings:		
Reserved - Grant Programs (Note 5)	56,028	36,457
Reserved - Program Bonds (Note 5 and Note 10)	73,112	56,514
Reserved - Homebuyers Revolving Loan Program (Note 5)	398	316
Unreserved (Note 7)	203,773	233,408
Total retained earnings	333,311	326,695
Total equity	335,811	329,195
Total liabilities and equity	\$ 2,321,818	\$ 2,118,880

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED JUNE 30, 2000, AND JUNE 30, 1999
(Expressed in Thousands)

	<u>2000</u>	<u>1999</u>
<u>OPERATING REVENUES</u>		
Mortgage interest income	\$ 101,501	\$ 89,306
Investment income		
Interest	34,906	34,264
Net decrease in the fair value of investments	(3,788)	(6,648)
Fees and other income	<u>930</u>	<u>981</u>
Total operating revenues	<u>133,549</u>	<u>117,903</u>
<u>OPERATING EXPENSES</u>		
Salaries and benefits	3,186	2,988
Contractual services	984	536
Materials and supplies	148	80
Rentals and insurance	338	227
Other administrative expenses	112	34
Other program expenses	875	633
Interest expense	101,935	99,187
Mortgage service fees	5,073	4,214
Issuance costs	958	940
Depreciation	<u>8</u>	<u>74</u>
Total operating expenses	<u>113,617</u>	<u>108,913</u>
Operating income	<u>19,932</u>	<u>8,990</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Federal grants revenue	39,046	39,208
Interdepartmental tax revenue	-	18,585
Federal grants expenses	(39,046)	(39,208)
Local grants expenses	<u>(12,990)</u>	<u>(11,598)</u>
Total nonoperating revenues (expenses)	<u>(12,990)</u>	<u>6,987</u>
Income before extraordinary loss	<u>6,942</u>	<u>15,977</u>
Extraordinary loss on early retirement of debt (Note 4)	<u>(326)</u>	<u>(695)</u>
Net income	<u>6,616</u>	<u>15,282</u>
Retained earnings, July 1	<u>326,695</u>	<u>311,413</u>
Retained earnings, June 30	<u>\$ 333,311</u>	<u>\$ 326,695</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2000 AND JUNE 30, 1999
(Expressed in Thousands)

	<u>2000</u>	<u>1999</u>
Cash flows from operating activities:		
Operating income	\$ <u>19,932</u>	\$ <u>8,990</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization	980	801
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	5,024	(3,540)
(Increase) decrease in mortgage interest receivable	(993)	717
(Increase) decrease in first mortgage loans receivable	(289,064)	(32,667)
(Increase) decrease in deferred charges	107	(109)
(Increase) decrease in other receivables	3	2
Increase (decrease) in warrants payable	466	89
Increase (decrease) in accounts payable	(2,362)	2,105
Increase (decrease) in due to primary government	1	(455)
Increase (decrease) in deferred revenue	1,413	206
Investment income included as operating revenue	(31,118)	(27,616)
Interest expense included as operating expense	<u>101,935</u>	<u>99,187</u>
Total adjustments	<u>(213,608)</u>	<u>38,720</u>
Net cash provided (used) by operating activities	<u>(193,676)</u>	<u>47,710</u>
Cash flows from non-capital financing activities:		
Operating grants received	39,046	39,208
Taxes received	-	18,585
Negative cash balance implicitly financed (repaid)	(5,254)	6,377
Proceeds from sale of bonds	513,974	313,407
Proceeds from issuance of notes	31,180	82,480
Operating grants paid	(52,036)	(50,806)
Cost of issuance paid	(1,070)	(416)
Principal payments	(357,693)	(414,634)
Interest paid	<u>(88,154)</u>	<u>(95,184)</u>
Net cash provided (used) by non-capital financing activities	<u>79,993</u>	<u>(100,983)</u>
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	<u>(16)</u>	<u>(24)</u>
Net cash used by capital and related financing activities	<u>(16)</u>	<u>(24)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	218,191	731,992
Purchases of investments	(281,286)	(668,310)
Investment interest received	<u>35,840</u>	<u>38,934</u>
Net cash provided (used) by investing activities	<u>(27,255)</u>	<u>102,616</u>
Net increase (decrease) in cash and cash equivalents	(140,954)	49,319
Cash and cash equivalents, July 1	<u>260,892</u>	<u>211,573</u>
Cash and cash equivalents, June 30	\$ <u><u>119,938</u></u>	\$ <u><u>260,892</u></u>
Noncash investing, capital, and financing activities:		
Disposition of fixed assets	\$ -	\$ 96
Accretion of deep discount bonds	5,783	6,693
Cost of Issuance	<u>2,027</u>	<u>1,593</u>
Total noncash investing, capital, and financing activities	\$ <u><u>7,810</u></u>	\$ <u><u>8,382</u></u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2000, AND JUNE 30, 1999

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The Tennessee Housing Development Agency was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 *et seq.* The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

Agency operations are directed by a 19-member board of directors. The board consists of five members who serve *ex officio* (the State Treasurer, the Comptroller of the Treasury, the Commissioner of the Department of Finance and Administration, the Secretary of State, and a staff assistant to the Governor), and 14 appointed members -- 12 appointed by the Governor and one each by the Speaker of the House and the Speaker of the Senate. The board includes representatives of the housing, real estate, home-building, and mortgage-lending industries; representatives of local government and nonprofit organizations; and citizens from the public at-large.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

The Tennessee Housing Development Agency is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body, approves its budget, and provides some financial support. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

b. Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The agency follows all applicable GASB pronouncements as well as applicable private-sector pronouncements issued on or before November 30, 1989. Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, and Homeownership Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

c. Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2000, AND JUNE 30, 1999

d. Depreciation

The agency records furniture and office equipment at cost and follows the straight-line method of depreciating the assets over their estimated useful lives, which are determined considering physical factors as well as obsolescence factors.

e. Bond Issuance Costs, Refunding Costs, and Interest Accretion

1. Bond Issuance Costs: The agency amortizes bond issuance costs using the bonds outstanding method over the life of the related bond issue. Unamortized bond issuance costs are reported as deferred charges.
2. Bond Refunding Costs: The agency amortizes bond refunding costs using the straight-line method. Bonds payable are reported net of the unamortized bond refunding costs.
3. Interest Accretion: The difference between the face amount of deep discount bonds and the public offering price is not treated as bond discount. Deep discount bonds are subject to redemption at prices which increase from the public offering price up to the face amount. The carrying amount of these bonds is adjusted monthly to reflect the increased liability, with a corresponding charge to interest expense.
4. Mortgage Discount: Discounts on 30-year mortgage loans purchased by the agency are amortized using the straight-line method over 17 years, the estimated average life of mortgages. The amount amortized is credited to interest income.

f. Cash and Cash Equivalents

In addition to demand deposits, petty cash, and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

g. Investments

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies; obligations guaranteed by the U.S.; public housing bonds secured by contracts with the U.S.; direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee; obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation; interest bearing time or demand deposits; collateralized certificates of deposit in authorized state depositories; and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value.

h. Accrual of Interest Income

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

i. Mortgages

Mortgages are carried at their original amount less principal collected.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2000, AND JUNE 30, 1999

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

The agency's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2000, the carrying amount of the agency's deposits was \$17,686,910, and the bank balance was \$19,327,472. At June 30, 1999, the carrying amount of the agency's deposits was \$22,218,445, and the bank balance was \$23,648,641. All bank balances were insured. The carrying amount of cash on deposit in the State Treasurer's pooled investment fund was \$30,621,708 on June 30, 2000 and \$53,930,380 on June 30, 1999.

b. Investments

The agency's investments are categorized to indicate the level of custodial risk assumed by the agency at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the agency or its agent in the agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the agency's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the agency's name. Investments are categorized as follows:

	June 30, 2000		
	Category		
	<u>1</u>	<u>2</u>	<u>3</u>
			Fair Value
Cash equivalents and short-term investments			
Repurchase agreements	\$ 183,192,996		\$184,004
U S government securities	132,686,634		
Total cash equivalents and short-term investments	\$ 315,879,630		\$184,004
Long-term investments			
U S government securities	\$ 390,607,096		
State & local government securities	1,016,636		
Total long-term investments	\$ 391,623,732		\$ 391,623,732
Total	\$ 707,503,362		\$184,004

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2000, AND JUNE 30, 1999

June 30, 1999				
	Category			Fair Value
	<u>1</u>	<u>2</u>	<u>3</u>	
Cash equivalents and short-term investments				
Repurchase agreements	\$ 156,275,000			\$ 156,275,000
U S government securities	173,962,521			173,962,521
State and local government securities	100,003			100,003
Total cash equivalents and short-term investments	\$ 330,337,524			\$ 330,337,524
Long-term investments				
U S government securities	\$ 431,138,123			\$ 431,138,123
State & local government securities	1,022,299			1,022,299
Total long-term investments	\$ 432,160,422			\$ 432,160,422
Total	\$ 762,497,946			\$ 762,497,946

NOTE 3. CHECKS PAYABLE

This amount represents the sum of checks written in excess of the agency's checking account balance because of the agency's use of a controlled disbursement account. Through the use of a controlled disbursement account, the agency maximizes interest income by transferring from an investment account only funds necessary to cover the checks that clear the bank daily.

NOTE 4. REVENUE BONDS AND NOTES PAYABLE

a. Bonds Issued and Outstanding

The following tables are a summary of bonds issued and outstanding as of June 30, 2000 and June 30, 1999:

BONDS ISSUED							BONDS OUTSTANDING	
(Thousands)							(Thousands)	
SERIAL BONDS				TERM BONDS				
<u>Series</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate (Percent)</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate (Percent)</u>	<u>06-30-2000</u>	<u>06-30-1999</u>
MORTGAGE FINANCE PROGRAM BONDS								
1993A	1/1/99-7/1/2008	\$136,420	4.70 to 5.70	7/1/2010	\$ 15,365	5.800		
				7/1/2013	25,540	5.850		
				7/1/2018	28,815	5.900		
				7/1/2028	59,770	5.950	\$246,310	\$260,995
1994A	1/1/96-7/1/2009	14,760	4.4 to 6.35	1/1/2019	20,835	6.400		
				7/1/2025	24,405	6.900	40,315	47,085
1994B	7/1/96-7/1/2011	30,095	4.50 to 6.40	7/1/2014	10,015	6.450		
				7/1/2019	21,810	6.550		
				7/1/2025	38,080	6.600	69,670	83,305
1995A	1/1/97-7/1/2008	14,270	5.45 to 6.55	7/1/2010	3,735	6.650		
				7/1/2014	9,350	6.850		
				7/1/2020	20,485	7.050		
				7/1/2026	32,160	7.125	53,525	69,315
1995B				7/1/2015	3,135	6.150		
				7/1/2018	12,155	6.200	15,290	15,290

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2000, AND JUNE 30, 1999

BONDS ISSUED							BONDS OUTSTANDING	
(Thousands)							(Thousands)	
SERIAL BONDS				TERM BONDS				
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)	06-30-2000	06-30-1999
MORTGAGE FINANCE PROGRAM BONDS (cont.)								
1995C	1/1/97-7/1/2009	22,990	4.8 to 5.95	7/1/2015	15,300	6.100		
				7/1/2021	14,685	6.450		
				7/1/2026	31,735	6.550	58,690	69,465
TOTAL MORTGAGE								
FINANCE PROGRAM BONDS		\$218,535			\$ 387,375		\$483,800	\$545,455
HOMEOWNERSHIP PROGRAM BONDS								
Issue G	7/1/89-7/1/2002	\$ 16,345	5.25 to 7.5	7/1/2006	\$ 8,500	7.650	\$ 3,450	\$ 4,470
Issue J	7/1/92-7/1/2003	6,010	6.25 to 7.40	7/1/2008	4,555	7.625		
				7/1/2017	14,435	7.750	-0-	7,675
Issue K	7/1/92-7/1/2003	18,960	6.4 to 7.7	7/1/2021	52,755	8.125		
				7/1/2004 to 7/1/2008		7.90 to 8.10		
					3,060		1	12,890
						Interest accretion	2	3,996
Issue M				7/1/2017	28,740	7.125	25,340	25,585
Issue N	7/1/91-7/1/2008	29,000	6.7 to 7.5	7/1/2011	8,725	7.600		
				7/1/2020	19,275	7.650	9,765	29,260
Issue O	7/1/91-7/1/2005	21,580	6.4 to 7.5	7/1/2009	10,675	7.700		
				7/1/2020	51,745	7.750	9,875	12,760
Issue P	7/1/97-7/1/2010	17,540	6.85 to 7.50	7/1/2016	22,460	7.700	9,874	14,628
						Interest accretion	10,683	11,031
Issue S	7/1/92-7/1/2005	16,210	6.2 to 7.4	7/1/2010	10,985	7.500		
				7/1/2022	51,405	7.625	6,215	68,705
Issue T	7/1/92-7/1/2002	9,560	5 to 6.75	7/1/2011	15,875	7.300		
				7/1/2023	46,940	7.375	66,170	67,140
Issue U	7/1/00-7/1/2006	10,570	6.40 to 6.95	7/1/2011	11,460	7.350		
				7/1/2016	15,660	7.400	24,900	27,235
Issue V	7/1/92-7/1/99	7,725	5.30 to 6.55	7/1/2022	29,585	7.650	5	1,020
Issue WR	7/1/94-7/1/2007	15,020	4.25 to 6.45	7/1/2012	9,725	6.700		
				7/1/2017	25,155	6.800	39,740	43,300
Issue XR				7/1/2022	8,555	6.875	-0-	1,530
Issue Y1	1/1/95-7/1/2007	4,860	3.50 to 5.60	7/1/2013	3,660	5.800		
				7/1/2017	3,245	5.900	9,760	10,100
Issue Z1	1/1/95-7/1/2007	5,505	3.75 to 5.85	7/1/2013	3,535	6.000		
				7/1/2023	16,250	5.375		
				7/1/2024	12,945	6.100	21,795	25,860
Issue Y2	1/1/04-7/1/2007	1,520	5.00 to 5.20	7/1/2013	2,965	5.450		
				7/1/2017	2,575	5.550	6,890	6,890
Issue Z2	1/1/95-7/1/2003	3,790	3.5 to 5.0	7/1/2023	12,000	5.000		
				7/1/2024	7,150	5.750	13,210	15,465
1995-1	1/1/97-7/1/2010	16,965	4.35 to 6.05	7/1/2016	13,060	6.350		
				7/1/2021	15,635	6.400		
				1/1/2026	19,340	6.480	27,305	27,735
1996-1A	7/1/97	290	4.00	7/1/98-7/1/2012	12,225	4.10 to 5.60		
				7/1/2015	4,210	5.700		
				7/1/2017	3,255	5.750		
				7/1/2022	10,090	5.800		
				1/1/2026	9,125	5.850	35,030	37,545
1996-1B	7/1/2010-1/1/2011	805	5.35 to 5.45				805	805
1996-2A	1/1/98-7/1/2014	20,310	4.40 to 6.15	7/1/2016	4,675	6.000		
				7/1/2022	18,360	6.350		
				1/1/2027	18,835	6.375	55,820	60,065
1996-2B	7/1/2009-1/1/2011	2,820	5.70 to 5.80				2,820	2,820
1996-3	7/1/99-7/1/2012	16,490	4.30 to 5.65	7/1/2017	10,670	5.850		
				7/1/2023	18,540	5.850		
				1/1/2028	19,300	6.000	42,200	42,750

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NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2000, AND JUNE 30, 1999

BONDS ISSUED							BONDS OUTSTANDING	
(Thousands)							(Thousands)	
SERIAL BONDS				TERM BONDS				
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)	06-30-2000	06-30-1999
HOMEOWNERSHIP PROGRAM BONDS (cont.)								
1996-4 A	7/1/98-7/1/2011	\$ 13,535	4.35 to 6.00	7/1/2016	\$ 8,975	6.050		
				7/1/2022	15,485	6.375		
				1/1/2027	16,400	6.450	51,770	53,455
1996-4 B	1/1/2011	605	5.85				605	605
1996-5A	7/1/99-7/1/2012	8,180	4.00 to 5.35	7/1/2017	4,825	5.500		
				7/1/2023	7,935	5.550		
				7/1/2028	9,060	5.750	29,555	30,000
1996-5B	7/1/99- 7/1/2012	8,880	3.85 to 5.05	7/1/2017	4,835	5.000		
				7/1/2023	7,700	5.375		
				7/1/2028	8,585	5.400	29,340	30,000
1997-1	7/1/99-7/1/2012	16,385	4.00 to 5.10	7/1/2017	9,695	5.000		
				7/1/2023	15,845	5.375		
				1/1/2028	15,960	5.400	56,875	57,885
1997-2	7/1/2000- 7/1/2013	15,040	3.20 to 4.75	01/01/2018	7,495	5.100		
				01/01/2024	13,040	5.150		
				01/01/2029	14,425	5.200	50,000	50,000
1997-3A	1/1/98-7/1/2008	40,911	4.00 to 5.35	7/1/2012	23,174	5.125		
				1/1/2017	1,133	5.875		
				7/1/2017	2,746	5.875	48,666	58,413
					Interest accretion		7,290	5,370
1997-3B				7/1/2016	20,044	5.725	20,044	20,044
					Interest accretion		3,339	2,056
1998-1	7/1/2001-7/1/2014	14,800	3.95 to 5.20	1/1/2019	7,500	5.250		
				1/1/2024	10,655	5.300		
				1/1/2030	17,045	5.400	49,985	50,000
1998-2	7/1/2000- 7/1/2012	7,850	4.00 to 5.05	7/1/2017	4,620	5.100		
				7/1/2023	7,385	5.350		
				7/1/2029	10,145	5.375	29,950	30,000
1998-3A	7/1/2000- 7/1/2001	700	3.70 to 3.90	1/1/2024	11,135	5.250		
				1/1/2030	13,365	5.300	25,200	25,200
1998-3B	7/1/2001- 7/1/2012	9,475	3.80 to 4.80	1/1/2017	5,325	5.000	14,800	14,800
1998-3C				11/18/99	40,000	3.100	-0-	40,000
1998-3C	7/1/2001- 7/1/2013	9,325	4.30 to 5.50	1/1/2020	8,000	6.000		
				1/1/2025	8,545	6.125		
				1/1/2031	14,130	6.150	40,000	-0-
1999-1A	7/1/2001 – 7/1/2014	11,090	3.95 to 5.20	1/1/2019	5,615	5.250		
				1/1/2024	7,980	5.300		
				1/1/2031	15,315	5.400	40,000	40,000
1999-1B				6/15/2000	35,000	3.250	-0-	35,000
1999-1B				7/1/2019	1,000	6.250	1,000	-0-
1999-2A	7/1/2001 - 7/1/2014	\$25,500	4.25 to 5.45	7/1/2018	11,625	5.600		
				7/1/2025	20,985	5.650		
				7/1/2031	34,220	5.700	92,325	-0-
1999-2B				7/1/2020	7,670	5.500	7,670	-0-
1999-2C				8/15/2000	50,000	3.570	50,000	-0-
1999-3	7/1/2001 – 7/1/2013	25,630	4.30 to 5.50	1/1/2020	22,025	6.000		
				1/1/2025	23,495	6.125		
				1/1/2031	38,850	6.150	110,000	-0-
2000-1	7/1/2001 – 7/1/2014	24,945	4.60 to 6.05	7/1/2020	19,230	6.125		
				7/1/2025	22,525	6.375		
				7/1/2031	38,300	6.400	105,000	-0-
2000-2A				1/1/2031	22,000	7.930	22,000	-0-
2000-2B	7/1/2001 – 7/1/2015	24,060		1/1/2020	12,770	6.250		
				1/1/2026	23,585	6.250		
				7/1/2030	10,000	6.350		
				1/1/2031	17,585	6.350	88,000	-0-
TOTAL HOMEOWNERSHIP PROGRAM BONDS		\$498,786			\$1,496,897		\$1,395,069	\$1,104,088
TOTAL ALL ISSUES		\$717,321			\$1,884,272		\$1,878,869	\$1,649,543

b. Debt Service Requirements

TENNESSEE HOUSING DEVELOPMENT AGENCY
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Debt service requirements to maturity at June 30, 2000 are as follows (expressed in thousands):

For the Year(s) Ending			Total
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2001	\$ 85,763	\$ 102,966	\$ 188,729
2002	41,805	102,445	144,250
2003	47,647	100,418	148,065
2004	48,844	98,178	147,022
2005	54,267	97,251	151,518
2006 – 2032	<u>1,579,229</u>	<u>1,311,589</u>	<u>2,890,818</u>
Total	<u>\$1,857,555</u>	<u>\$1,812,847</u>	<u>\$ 3,670,402</u>

The debt principal in the preceding table is \$21.3 million less than that presented in the accompanying financial statements. This amount, representing the accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds, has been reported as bond principal in the financial statements; it has been reported here as interest in those years (2001-2017) in which the bonds mature.

c. Redemption of Bonds and Notes

During the year ended June 30, 2000, bonds were retired at par before maturity in the Mortgage Finance Program Bonds in the amount of \$10,175,000 and in the Homeownership Program Bonds in the amount of \$31,887,921. The respective carrying values of these bonds were \$10,101,570 and \$31,634,893. This resulted in a loss to the Mortgage Finance Program of \$73,430 and the Homeownership Program of \$253,028.

On July 1, August 12, and September 10, 1999, the agency used \$60,205,000 of Bond Issue 1999-1, which were issued on June 17, 1999, to refund certain bonds and notes previously issued in the Mortgage Finance Program, the Homeownership Program and the 1999CN-1 Single Family Mortgage Note Program. The carrying amount of those bonds and notes was \$59,789,149. The refunding resulted in a difference of \$415,851 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2022. The agency completed the refunding to reduce its total debt service over the next 31 years by \$14,614,562 and realized an economic gain (the difference between the present values of the old and new debt service payments) of \$16,430,410.

On July 29, 1999, the agency issued \$150,000,000 in Homeownership Program Bonds, Issue 1999-2, of which \$43,105,000 was used on September 9 and 10, 1999 to refund certain bonds and notes previously issued in the Homeownership Program and the 1999CN-1 Single Family Mortgage Note Program. The carrying amount of those bonds and notes was \$42,731,578. The refunding resulted in a difference of \$373,422 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2022. The agency completed the refunding to reduce its total debt service over the next 31 years by \$9,094,543 and realized an economic gain (the difference between the present values of the old and new debt service payments) of \$16,502,378.

On October 20, 1999, the agency remarketed \$40,000,000 in Homeownership Program Bonds, Issue 1998-3. The total amount of this bond issue was \$80,000,000, of which \$62,885,000 was used on December 2, 1998 to refund certain bonds and notes in the Mortgage Finance Program, the

Homeownership Program and the Convertible Notes 1997 CN-1. The agency completed the refunding to reduce its total debt service over the next 31 years by \$5,231,934 and realized an economic gain (the

TENNESSEE HOUSING DEVELOPMENT AGENCY
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JUNE 30, 2000, AND JUNE 30, 1999

difference between the present values of the old and new debt service payments) of \$10,042,943. Also on this date, the agency issued \$110,000,000 in Homeownership Program Bonds, Issue 1999-3, of which \$32,645,000 (\$23,680,000 early redemption and \$8,965,000 current maturities) was used on January 1, 2000 to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The carrying amount of those bonds was \$23,449,331. The refunding resulted in a difference of \$230,669 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2026. The agency completed the refunding to reduce its total debt service over the next 31 years by \$1,754,403 and realized an economic gain (the difference between the present values of the old and new debt service payments) of \$15,633,882.

On February 17, 2000, the agency issued \$105,000,000 in Homeownership Program Bonds, Issue 2000-1, of which \$27,670,852 was used on April 1, 2000 to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The carrying amount of those bonds and notes was \$27,437,214. The refunding resulted in a difference of \$233,638 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2031. The agency completed the refunding to reduce its total debt service over the next 31 years by \$6,697,095 and realized an economic gain (the difference between the present values of the old and new debt service payments) of \$1,801,518.

On June 15, 2000, the agency issued \$110,000,000 in Homeownership Program Bonds, Issue 2000-2 A & B, and \$31,180,000 in Homeownership Program Notes, Issue 2000-2 C & D of which \$34,000,000 (\$28,955,000 bonds and \$5,045,000 notes) was used on June 15, 2000 to refund current maturities of bonds previously issued in the Homeownership Program. An additional \$107,180,000 (\$81,045,000 bonds and \$26,135,000 notes) of the proceeds will be used on July 1, and August 15, 2000 to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program. Also on this date, the agency remarketed \$1,000,000 of Homeownership Program Bonds, Issue 1999-1B.

During the year ended June 30, 1999, bonds were retired at par before maturity in the Mortgage Finance Program Bonds in the amount of \$4,220,000 and in the Homeownership Program Bonds in the amount of \$76,179,483. The respective carrying values of these bonds were \$4,181,124 and \$75,518,893. This resulted in a loss to the Mortgage Finance Program of \$38,876 and the Homeownership Program of \$660,590.

On July 1, 1998, the agency drew down \$17,245,000 of the convertible notes, 1997 CN-1, to refund certain bonds previously issued in the Homeownership Program. The carrying amount of these bonds was \$17,081,062. The refunding resulted in a difference of \$163,938 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2022. A portion of this refunding was accomplished using proceeds of short-term debt, which was remarketed on October 20, 1999. Also on this date, the agency used \$40,930,000 of the proceeds from the Homeownership Program Bond Issue 1998-1 to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The carrying amount of these bonds was \$40,602,716. The refunding resulted in a difference of \$327,284 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2026. A portion of this refunding was accomplished using proceeds of short-term debt, which was remarketed on June 17, 1999.

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NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2000, AND JUNE 30, 1999

On August 1, 1998, the agency issued \$30,000,000 in Homeownership Program Bonds, Issue 1998-2, of which \$27,150,000 was used on October 30, 1998 to refund certain bonds previously issued in the Homeownership Program. The carrying amount of those bonds was \$26,897,268. The refunding resulted in a difference of \$252,732 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2027. The agency completed the refunding to reduce its total debt service over the next 31 years by \$3,894,097 and realized an economic gain (the difference between the present values of the old and new debt service payments) of \$4,097,864.

On December 2, 1998, the agency issued \$80,000,000 in Homeownership Program Bonds, Issues 1998-3A, B, and C. The proceeds of these bonds were used to refund previously issued bonds and notes as follows: (1) \$46,265,000 was used to refund the first draw of the Convertible Notes, 1997 CN-1, which refunded certain bonds previously issued in the Mortgage Finance and Homeownership Programs on January 1, 1998. The carrying amount of those bonds was \$45,863,992. (2) \$10,240,000 was used to refund the second draw of 1997 CN-1, which refunded certain bonds previously issued in the Homeownership Program on July 1, 1998. The carrying amount of those bonds was \$10,142,654. (3) \$6,380,000 was used on January 1, 1999 to refund certain bonds previously issued in the Mortgage Finance and Homeownership Programs. The carrying amount of those bonds was \$6,340,543. The refunding resulted in a difference of \$39,457 between the reacquisition price and the net carrying amount of the old debt. The difference between the reacquisition price and the net carrying amount of the bonds refunded in (1) and (2) above and the disposition thereof was documented at the time the bonds were originally refunded. The difference between the reacquisition price and the net carrying amount of the bonds refunded in (3) above, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2026. A portion of this refunding was accomplished using proceeds of short-term debt, which was remarketed on October 20, 1999.

On March 4, 1999, the agency remarketed \$50,000,000 in Homeownership Program Bonds, Issue 1997-2, of which \$29,725,000 was used to refund certain bonds previously issued in the Homeownership Program. The agency completed the refunding to reduce its total debt service over the next 30 years by \$12,161,239 and realized an economic gain (the difference between the present values of the old and new debt service payments) of \$7,484,437.

On April 13, 1999, the agency issued \$200,000,000 of drawdown notes, 1999CN-1, of which \$65,235,000 was drawn down to refund on July 1, 1999 certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of \$63,004,030.15 early redemption and \$2,230,969.85 current maturities). This refunding was accomplished using proceeds of short-term debt, which was refunded on August 12, and September 9, 1999.

On June 17, 1999, the agency remarketed \$50,000,000 in Homeownership Program Bonds, Issue 1998-1, of which \$40,930,000 was used to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The agency completed the refunding to reduce its total debt service over the next 31 years by \$4,800,345 and realized an economic gain (the difference between the present values of the old and new debt service payments) of \$7,790,649.

Details of the bond retirements by issue are as follows:

Year Ended June 30, 2000						
Date of Call	Issue	Par Value	Carrying Amount	(Loss)	Deferred Amount	Source of Funds
MORTGAGE FINANCE PROGRAM BONDS						
07/01/99	94A	\$ 2,485,000	\$ 2,472,503		(\$ 12,497)	Current Refunding
07/01/99	94B	4,815,000	4,778,665		(36,335)	Current Refunding
07/01/99	95A	9,460,000	9,369,057		(90,943)	Current Refunding
07/01/99	95C	145,000	143,684		(1,316)	Current Refunding

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2000, AND JUNE 30, 1999

Year Ended June 30, 2000 (cont.)

Date of Call	Issue	Par Value	Carrying Amount	(Loss)	Deferred Amount	Source of Funds
MORTGAGE FINANCE PROGRAM BONDS (cont.)						
07/01/99	95C	3,600,000	3,567,327	(\$32,673)		Prepayments
09/01/99	93A	3,845,000	3,828,457	(16,543)		Prepayments
01/01/2000	94A	1,400,000	1,393,096		(6,904)	Current Refunding
01/01/2000	94B	2,785,000	2,764,477		(20,523)	Current Refunding
01/01/2000	95A	2,050,000	2,030,752		(19,248)	Current Refunding
01/01/2000	95C	855,000	847,416		(7,584)	Current Refunding
01/01/2000	95C	2,730,000	2,705,786	(24,214)		Prepayments
04/01/2000	94A	2,030,000	2,020,136		(9,864)	Current Refunding
04/01/2000	94B	4,575,000	4,541,863		(33,137)	Current Refunding
04/01/2000	95A	3,325,000	3,294,291		(30,709)	Current Refunding
04/01/2000	95C	2,025,000	2,007,328		(17,672)	Current Refunding
Sub-Total-		\$ 46,125,000	\$45,764,838	(\$73,430)	(\$286,732)	
HOMEOWNERSHIP PROGRAM BONDS						
07/01/99	88J	\$ 7,135,000	\$ 7,071,784		(\$ 63,216)	Current Refunding
07/01/99	88K	15,189,030	15,089,849		(99,181)	Current Refunding
07/01/99	90S	32,430,000	32,092,082		(337,918)	Current Refunding
07/01/99	91W	315,000	311,700	(\$ 3,300)		Prepayments
07/01/99	91X	1,530,000	1,513,974	(16,026)		Prepayments
07/01/99	92Z1	2,020,000	2,003,277	(16,723)		Prepayments
07/01/99	92Z2	825,000	818,162	(6,838)		Prepayments
07/01/99	96-1	740,000	735,106	(4,894)		Prepayments
07/01/99	96-2	1,225,000	1,215,678	(9,322)		Prepayments
07/01/99	96-4	250,000	247,524	(2,476)		Prepayments
07/01/99	97-3	4,397,769	4,367,691	(30,078)		Prepayments
09/10/99	90S	14,420,000	14,272,133		(147,867)	Current Refunding
01/01/2000	89M	14,140,000	13,987,696		(152,304)	Current Refunding
01/01/2000	89M	3,915,000	3,872,831	(42,169)		Prepayments
01/01/2000	89O	1,175,000	1,166,486	(8,514)		Prepayments
01/01/2000	90P	2,039,847	2,032,557	(7,290)		Prepayments
01/01/2000	90S	2,450,000	2,425,894		(24,106)	Current Refunding
01/01/2000	91U	2,090,000	2,070,888	(19,112)		Prepayments
01/01/2000	91W	2,040,000	2,019,504	(20,496)		Prepayments
01/01/2000	92Z1	880,000	872,880	(7,120)		Prepayments
01/01/2000	92Z2	390,000	386,842	(3,158)		Prepayments
01/01/2000	96-1	1,215,000	1,207,140	(7,860)		Prepayments
01/01/2000	96-2	1,875,000	1,861,036	(13,964)		Prepayments
01/01/2000	96-4	505,000	500,103	(4,897)		Prepayments
01/01/2000	97-1	45,000	44,586	(414)		Prepayments
01/01/2000	97-3	4,380,305	4,352,268	(28,037)		Prepayments
01/01/2000	98-1	15,000	14,854	(146)		Prepayments
01/01/2000	98-2	20,000	19,806	(194)		Prepayments
04/01/2000	89M	245,000	242,417		(2,583)	Current Refunding
04/01/2000	89O	245,000	243,376		(1,624)	Current Refunding
04/01/2000	90P	248,338	247,494		(844)	Current Refunding
04/01/2000	90S	12,105,000	11,990,734		(114,266)	Current Refunding
04/01/2000	91U	245,000	242,824		(2,176)	Current Refunding
04/01/2000	91W	245,000	242,592		(2,408)	Current Refunding
04/01/2000	92Z1	750,000	744,033		(5,967)	Current Refunding
04/01/2000	92Z2	615,000	610,095		(4,905)	Current Refunding
04/01/2000	96-1	245,000	243,454		(1,546)	Current Refunding
04/01/2000	96-2	245,000	243,202		(1,798)	Current Refunding
04/01/2000	96-4	160,000	158,471		(1,529)	Current Refunding
04/01/2000	97-1	85,000	84,229		(771)	Current Refunding
04/01/2000	97-3	247,514	245,991		(1,523)	Current Refunding
04/01/2000	98-2	30,000	29,713		(287)	Current Refunding
04/01/2000	99-2	5,000	4,971		(29)	Current Refunding
Sub-Total		\$133,367,803	\$132,147,927	(\$253,028)	(\$ 966,848)	
Total		\$179,492,803	\$177,912,765	(\$326,458)	(\$1,253,580)	

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2000, AND JUNE 30, 1999

Year Ended June 30, 1999

Date of Call	Issue	Par Value	Carrying Amount	(Loss)	Deferred Amount	Source of Funds
MORTGAGE FINANCE PROGRAM BONDS						
07/01/98	94A	\$ 1,855,000	\$ 1,845,291		(\$ 9,709)	Current Refunding
07/01/98	94B	2,555,000	2,534,836		(20,164)	Current Refunding
07/01/98	95A	3,330,000	3,296,550		(33,450)	Current Refunding
07/01/98	95 C	2,305,000	2,283,155		(21,845)	Current Refunding
07/01/98	95C	110,000	108,958	(\$ 1,042)		Prepayments
01/01/99	94A	3,000,000	2,984,740		(15,260)	Current Refunding
01/01/99	94B	3,025,000	3,001,839		(23,161)	Current Refunding
01/01/99	95C	4,110,000	4,072,166	(37,834)		Prepayments
	Sub-Total-	\$ 20,290,000	\$ 20,127,535	(\$ 38,876)	(\$ 123,589)	
HOMEOWNERSHIP PROGRAM BONDS						
07/01/98	86G	\$ 355,000	\$ 351,820		(\$ 3,180)	Current Refunding
07/01/98	86H	1,300,000	1,288,354		(11,646)	Current Refunding
07/01/98	89O	31,265,000	30,987,758		(277,242)	Current Refunding
07/01/98	89O	4,090,000	4,053,732	(\$36,268)		Prepayments
07/01/98	91V	9,600,000	9,503,854		(96,146)	Current Refunding
07/01/98	91V	325,000	321,745	(3,255)		Prepayments
07/01/98	91XR	685,000	677,417	(7,583)		Prepayments
07/01/98	92Z1	1,360,000	1,348,296		(11,704)	Current Refunding
07/01/98	92Z2	715,000	708,864		(6,136)	Current Refunding
10/30/98	89O	4,900,000	4,858,528		(41,472)	Current Refunding
10/30/98	96-3	22,250,000	22,038,740		(211,260)	Current Refunding
10/30/98	97-3	3,943,611	3,914,531	(29,080)		Prepayments
01/01/99	86G	1,555,000	1,541,918	(13,082)		Prepayments
01/01/99	86H	5,700,000	5,652,045	(47,955)		Prepayments
01/01/99	89N	645,000	637,638	(7,362)		Prepayments
01/01/99	89O	915,000	907,476	(7,524)		Prepayments
01/01/99	90P	2,960,000	2,941,746	(18,254)		Prepayments
01/01/99	91V	1,130,000	1,119,053	(10,947)		Prepayments
01/01/99	91XR	2,060,000	2,038,026	(21,974)		Prepayments
01/01/99	92Z1	1,910,000	1,893,876	(16,124)		Prepayments
01/01/99	92Z2	1,065,000	1,056,019	(8,981)		Prepayments
01/01/99	95-1	355,000	353,964		(1,036)	Current Refunding
01/01/99	96-1A	295,000	293,007	(1,993)		Prepayments
01/01/99	96-2A	620,000	615,182	(4,818)		Prepayments
01/01/99	96-4A	130,000	128,685	(1,315)		Prepayments
01/01/99	97-3A	4,585,872	4,552,581	(33,291)		Prepayments
06/01/99	89N	16,360,000	16,179,032	(180,968)		Prepayments
06/01/99	89O	6,255,000	6,207,443	(47,557)		Prepayments
06/01/99	90P	9,755,000	9,697,730	(57,270)		Prepayments
06/01/99	91V	11,195,000	11,090,011	(104,989)		Prepayments
	Sub-Total	\$148,279,483	\$146,959,071	(\$660,590)	(\$659,822)	
	Total	\$168,569,483	\$167,086,606	(\$699,466)	(\$783,411)	

Under the bond resolutions, the agency has the option to redeem bonds at an initial price of 103 percent and subsequently at prices declining to par. Generally, the redemption option cannot be exercised prior to the time the bonds have been outstanding for ten years. Certain special redemption options, as governed by the bond resolutions, are permitted prior to that time.

The bonds are secured, as described in the applicable bond resolutions, by the revenues, monies, investments, mortgage loans and other assets in the funds and accounts established by the resolutions.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2000, AND JUNE 30, 1999

d. Notes Issued and Outstanding

The Single Family Mortgage Notes Trust Indenture, dated December 1, 1997 (the "Trust Indenture"), provides for the issuance of Agency drawdown notes with a maximum aggregate principal amount of \$65,000,000. On April 1, 1999 the Trust Indenture was supplemented providing for the maximum aggregate principal amount to be \$200,000,000.

The Series 1999CN-1 Notes (the "Notes"), dated April 13, 1999 are in the stated principal amount of \$200,000,000; however, the initial principal amount drawn down was \$65,235,000. The Notes bear interest, payable on the second Thursday of each succeeding month with respect to the principal amount drawn down by the agency. The interest rate is equal to ninety percent (90%) of the bond equivalent yield as determined on the related rate date.

The Homeownership Program Notes, 2000-2 C & D, are dated June 15, 2000. The notes mature on March 15, 2001, but are subject to optional redemption at par on or after January 1, 2001. Interest on the notes is payable on the date of maturity or upon earlier redemption.

The following table is a summary of notes issued and outstanding as of June 30, 2000, and June 30, 1999.

NOTES ISSUED				NOTES OUTSTANDING	
(Thousands)				(Thousands)	
<u>Series</u>	<u>Maturity</u>	<u>Stated Principal</u>	<u>Interest Rate (Percent)</u>	<u>06/30/2000</u>	<u>06/30/1999</u>
1999CN-1	4/13/2000	\$200,000	4.369	\$-0-	\$65,235
2000-2C	3/15/2001	20,865	4.750	20,865	-0-
2000-2D	3/15/2000	10,315	4.700	10,315	-0-
		<u>\$231,180</u>		<u>\$31,180</u>	<u>\$65,235</u>

NOTE 5. EQUITY

The \$2,500,000 shown as contributed capital on the balance sheet is an appropriation by the State of Tennessee for the Homebuyers Revolving Loan Program, a pilot demonstration program to fund low interest mortgages. Earnings from the Homebuyers Revolving Loan Program are reserved for use in the Homebuyers Revolving Loan Program.

The Reserve for Grant Programs reflects legislation of the State of Tennessee, effective July 1, 1988, which established the Assets Fund, the Housing Program Fund, and the Housing Program Reserve Fund. This legislation restricts to specific uses all agency funds that are not necessary to support the bond and note obligations and which can be withdrawn from the specific funds of the various bond resolutions as provided under the resolutions. These uses include supporting the rental rehabilitation program, construction loans, grants to local governments and nonprofit organizations, and agency operating expenses.

Initially an amount of \$49,018,410 was transferred on the agency's accounting records to the Assets Fund from the General Fund of the Mortgage Finance Program Group. In addition to the monies provided by the agency, TCA Section 13-23-402 allocated a portion of the real estate transfer taxes and the mortgage taxes levied by the State to the Housing Program Fund.

From time to time, the State of Tennessee has called upon the Agency and its resources, together with resources of other departments, agencies and organizations in state government, to provide funds to the State General Fund to balance the State budget. The following is a description of these occurrences in

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2000, AND JUNE 30, 1999

relationship to the Agency. On June 30, 1995, \$15,000,000 from the Agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, \$43,000,000 was transferred from the Agency to the State General Fund. The \$43,000,000 transferred from the Agency came from the following resources of the Agency: (i) \$15,459,157 from tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. In addition, the Housing Program Reserve Fund was statutorily abolished effective June 30, 1998.

Beginning July 1, 1999 all tax revenue previously directed to the Agency for the Grant Program was redirected to the State General Fund for one year to reduce certain anticipated State budget shortfalls for fiscal year 1999-2000. Subsequently, legislative actions taken in connection with the adoption of the State's fiscal year 2001 budget have redirected all such tax revenue to the State General Fund to reduce certain anticipated State budget shortfalls for fiscal year 2000-2001. This redirection is permanent, consequently, beginning July 1, 2000, no future tax revenues will be available to the Agency for the Grant Program.

On November 18, 1999 the Agency's Board of Directors approved a \$6,500,000 grant program that will be paid from the General Fund of the Mortgage Finance Bond Group. \$4,800,047 of this amount was under contract at June 30, 2000, and is included in the Reserve for Grant Programs.

The Reserve for Program Bonds represents the equity that is unavailable for transfer from the Homeownership Program as required by the general bond resolution.

NOTE 6. DEFINED BENEFIT PENSION PLAN

The agency contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230 or by calling (615) 741-8202.

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 5.43% of annual covered payroll. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees. The agency's contributions to TCRS for the years ended June 30, 2000, 1999, and 1998 were \$241,470, \$255,198, and \$144,649. Those contributions met the required contributions for each year.

NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES

Most mortgage loans are insured by Federal Housing Administration (FHA) or an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's Board of Directors has designated \$750,000 of unreserved retained earnings as a provision for possible loan losses arising from participation in the Rural Economic and Community Development (RECD) Loan Guarantee Program. An additional \$232,000 was designated to provide for losses on loans not specifically covered under one of the above programs, and \$500,000 has been designated for self-insurance of second mortgages.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2000, AND JUNE 30, 1999

NOTE 8. RISK MANAGEMENT

a. Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

b. Claims Award Fund

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The agency participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation. Since the agency participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

c. Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee provides and administers a group health insurance program which provides post-employment health insurance benefits to eligible agency retirees. The agency assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 10. PRIOR-PERIOD RESTATEMENTS

The financial statements for the year ended June 30, 1999, have been restated to properly reflect \$9.444 million of unamortized bond issuance costs as deferred charges instead of as unamortized bond discount. In addition, the amortization of issuance costs has been increased by \$732,214, and interest expense has been decreased by the same amount.

The financial statements have also been restated to properly reflect the reservation of retained earnings. As a result, reserved retained earnings have been increased by \$22.194 million.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2000, AND JUNE 30, 1999

NOTE 11. SUBSEQUENT EVENTS

- a. Mortgage prepayments, foreclosure proceeds, and bond proceeds were used to call bonds as indicated below:

July 1, 2000	Mortgage Finance Program	\$ 7,275,000
	Homeownership Program	<u>\$20,319,685</u>
	Total	<u>\$27,594,685</u>

**TENNESSEE HOUSING DEVELOPMENT AGENCY
OTHER SUPPLEMENTARY INFORMATION
SUPPLEMENTARY BALANCE SHEETS
JUNE 30, 2000
(Expressed in Thousands)**

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Single Family Mortgage Notes	Totals
<u>ASSETS</u>					
Current assets:					
Cash and cash equivalents	\$ 30,621	\$ 20,265	\$ 69,514	\$ 124	\$ 120,524
Short-term investments	8,044	16,940	219,450	-	244,434
Receivables:					
Accounts	16	3,539	4,883	-	8,438
Interest	534	6,701	12,471	-	19,706
First mortgage loans	286	10,621	17,501	-	28,408
Due from other funds	-	-	38	-	38
Total current assets	<u>39,501</u>	<u>58,066</u>	<u>323,857</u>	<u>124</u>	<u>421,548</u>
Other assets:					
Long-term investments	24,560	160,766	206,298	-	391,624
First mortgage loans receivable	2,379	392,946	1,101,224	-	1,496,549
Deferred charges	6	2,816	9,861	-	12,683
Other receivables	-	-	18	-	18
Total other assets	<u>26,945</u>	<u>556,528</u>	<u>1,317,401</u>	<u>-</u>	<u>1,900,874</u>
Fixed assets:					
Office furniture and fixtures	71	-	-	-	71
Less: accumulated depreciation	(51)	-	-	-	(51)
Total fixed assets	<u>20</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20</u>
Total assets	<u>\$ 66,466</u>	<u>\$ 614,594</u>	<u>\$ 1,641,258</u>	<u>\$ 124</u>	<u>\$ 2,322,442</u>
<u>LIABILITIES AND EQUITY</u>					
Liabilities:					
Current liabilities:					
Warrants payable	\$ 1,691	\$ -	\$ -	\$ -	\$ 1,691
Checks payable	-	-	3,731	-	3,731
Accounts payable and accruals	2,494	66	5,516	125	8,201
Due to primary government	38	-	-	-	38
Interest payable	-	14,613	35,982	-	50,595
Escrow deposits payable	169	14,132	-	-	14,301
Prepayments on mortgage loans	-	445	1,592	-	2,037
Notes payable	-	-	31,180	-	31,180
Deferred revenue	1,619	49	490	-	2,158
Due to other funds	-	38	-	-	38
Bonds payable	-	23,615	91,495	-	115,110
Total current liabilities	<u>6,011</u>	<u>52,958</u>	<u>169,986</u>	<u>125</u>	<u>229,080</u>
Noncurrent liabilities:					
Bonds payable	-	460,185	1,303,574	-	1,763,759
Less: Unamortized bond refunding costs	-	(558)	(5,650)	-	(6,208)
Total noncurrent liabilities	<u>-</u>	<u>459,627</u>	<u>1,297,924</u>	<u>-</u>	<u>1,757,551</u>
Total liabilities	<u>6,011</u>	<u>512,585</u>	<u>1,467,910</u>	<u>125</u>	<u>1,986,631</u>
Equity:					
Contributed capital	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,500</u>
Retained earnings:					
Reserved - Grant Programs	51,228	4,800	-	-	56,028
Reserved - Program Bonds	-	-	73,112	-	73,112
Reserved - Homebuyers Revolving Loan Program	398	-	-	-	398
Unreserved	6,329	97,209	100,236	(1)	203,773
Total retained earnings	<u>57,955</u>	<u>102,009</u>	<u>173,348</u>	<u>(1)</u>	<u>333,311</u>
Total equity	<u>60,455</u>	<u>102,009</u>	<u>173,348</u>	<u>(1)</u>	<u>335,811</u>
Total liabilities and equity	<u>\$ 66,466</u>	<u>\$ 614,594</u>	<u>\$ 1,641,258</u>	<u>\$ 124</u>	<u>\$ 2,322,442</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
OTHER SUPPLEMENTARY INFORMATION
SUPPLEMENTARY STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2000
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Single Family Mortgage Notes	Totals
<u>OPERATING REVENUES</u>					
Mortgage interest income	\$ 185	\$ 29,412	\$ 71,904	\$ -	\$ 101,501
Investment income:					
Interest	3,637	11,560	19,709	-	34,906
Net increase (decrease) in the fair value of investments	(654)	(3,724)	188	402	(3,788)
Fees and other income	841	89	-	-	930
Total operating revenues	4,009	37,337	91,801	402	133,549
<u>OPERATING EXPENSES</u>					
Salaries and benefits	3,186	-	-	-	3,186
Contractual services	984	-	-	-	984
Materials and supplies	148	-	-	-	148
Rentals and insurance	338	-	-	-	338
Other administrative expenses	112	-	-	-	112
Other program expenses	110	375	390	-	875
Interest expense	-	30,416	71,046	473	101,935
Mortgage service fees	2	1,386	3,685	-	5,073
Issuance costs	-	223	734	1	958
Depreciation	8	-	-	-	8
Total operating expenses	4,888	32,400	75,855	474	113,617
Operating income (loss)	(879)	4,937	15,946	(72)	19,932
<u>NONOPERATING REVENUES (EXPENSES)</u>					
Federal grants revenue	39,046	-	-	-	39,046
Federal grants expenses	(39,046)	-	-	-	(39,046)
Local grants expenses	(8,062)	-	(4,928)	-	(12,990)
Total nonoperating revenues (expenses)	(8,062)	-	(4,928)	-	(12,990)
Income (loss) before transfer and extraordinary loss	(8,941)	4,937	11,018	(72)	6,942
Transfer (to) from other funds	287	(288)	-	1	-
Income (loss) before extraordinary loss	(8,654)	4,649	11,018	(71)	6,942
Extraordinary loss on early retirement of debt	-	(73)	(253)	-	(326)
Net income (loss)	(8,654)	4,576	10,765	(71)	6,616
Retained earnings, July 1	66,609	97,433	162,583	70	326,695
Retained earnings, June 30	\$ 57,955	\$ 102,009	\$ 173,348	\$ (1)	\$ 333,311

TENNESSEE HOUSING DEVELOPMENT AGENCY
OTHER SUPPLEMENTARY INFORMATION
SUPPLEMENTARY STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2000
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Single Family Mortgage Notes	Totals
Cash flows from operating activities:					
Operating income (loss)	\$ (879)	\$ 4,937	\$ 15,946	\$ (72)	\$ 19,932
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation and amortization	106	209	665	-	980
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	1,667	1,314	2,043	-	5,024
(Increase) decrease in mortgage interest receivable	(13)	437	(1,417)	-	(993)
(Increase) decrease in first mortgage loans receivable	392	9,005	(298,461)	-	(289,064)
(Increase) decrease in deferred charges	4	-	103	-	107
(Increase) decrease in other receivables	-	-	3	-	3
(Increase) decrease in interfund receivables	-	61	(37)	-	24
Increase (decrease) in interfund payables	(62)	38	-	-	(24)
Increase (decrease) in warrants payable	466	-	-	-	466
Increase (decrease) in accounts payable	(122)	(3,708)	1,468	-	(2,362)
Increase (decrease) in due to primary government	1	-	-	-	1
Increase (decrease) in deferred revenue	1,413	-	-	-	1,413
Investment income included as operating revenue	(2,983)	(7,836)	(19,897)	(402)	(31,118)
Interest expense included as operating expense	-	30,416	71,046	473	101,935
Total adjustments	869	29,936	(244,484)	71	(213,608)
Net cash provided (used) by operating activities	(10)	34,873	(228,538)	(1)	(193,676)
Cash flows from non-capital financing activities:					
Operating grants received	39,046	-	-	-	39,046
Operating transfers in (out)	287	(288)	-	1	-
Negative cash balance implicitly financed (repaid)	-	-	(6,939)	-	(6,939)
Proceeds from sale of bonds	-	-	513,974	-	513,974
Proceeds from issuance of notes	-	-	31,180	-	31,180
Operating grants paid	(47,108)	-	(4,928)	-	(52,036)
Cost of issuance paid	-	-	(1,069)	(1)	(1,070)
Principal payments	-	(61,655)	(230,803)	(65,235)	(357,693)
Interest paid	-	(32,322)	(55,195)	(637)	(88,154)
Net cash provided (used) by non-capital financing activities	(7,775)	(94,265)	246,220	(65,872)	78,308
Cash flows from capital and related financing activities:					
Acquisition of fixed assets	(16)	-	-	-	(16)
Net cash used by capital and related financing activities	(16)	-	-	-	(16)
Cash flows from investing activities:					
Proceeds from sales and maturities of investments	-	96,292	232,212	-	328,504
Purchases of investments	(18,956)	(76,690)	(295,953)	-	(391,599)
Investment interest received	3,448	12,110	19,754	528	35,840
Net cash provided (used) by investing activities	(15,508)	31,712	(43,987)	528	(27,255)
Net Increase (decrease) in cash and cash equivalents	(23,309)	(27,680)	(26,305)	(65,345)	(142,639)
Cash and cash equivalents, July 1	53,930	47,945	95,819	65,469	263,163
Cash and cash equivalents, June 30	\$ 30,621	\$ 20,265	\$ 69,514	\$ 124	\$ 120,524
Noncash investing, capital, and financing activities:					
Disposition of fixed assets	\$ -	\$ -	\$ -	\$ -	\$ -
Accretion of deep discount bonds	-	-	5,783	-	5,783
Cost of issuance	-	-	2,027	-	2,027
Total noncash investing, capital, and financing activities	\$ -	\$ -	\$ 7,810	\$ -	\$ 7,810

TENNESSEE HOUSING DEVELOPMENT AGENCY
OTHER SUPPLEMENTARY INFORMATION
SUPPLEMENTARY BALANCE SHEET - OPERATING GROUP
JUNE 30, 2000
(Expressed in Thousands)

	Assets Fund	Housing Program Fund	Operating Group Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,480	\$ 29,141	\$ 30,621
Short-term investments	8,044	-	8,044
Receivables:			
Accounts	16	-	16
Interest	534	-	534
First mortgage loans	225	61	286
Due from other funds	-	507	507
Total current assets	<u>10,299</u>	<u>29,709</u>	<u>40,008</u>
Other assets:			
Long-term investments	24,560	-	24,560
First mortgage loans receivable	1,533	846	2,379
Deferred charges	-	6	6
Total other assets	<u>26,093</u>	<u>852</u>	<u>26,945</u>
Fixed assets:			
Office furniture and fixtures	-	71	71
Less: accumulated depreciation	-	(51)	(51)
Total fixed assets	<u>-</u>	<u>20</u>	<u>20</u>
Total assets	<u>\$ 36,392</u>	<u>\$ 30,581</u>	<u>\$ 66,973</u>
LIABILITIES AND EQUITY			
Liabilities:			
Warrants payable	\$ -	\$ 1,691	\$ 1,691
Accounts payable and accruals	-	2,494	2,494
Due to primary government	-	38	38
Deferred revenue	-	1,619	1,619
Escrow deposits payable	-	169	169
Due to other funds	507	-	507
Total liabilities	<u>507</u>	<u>6,011</u>	<u>6,518</u>
Equity:			
Contributed capital	-	2,500	2,500
Retained earnings:			
Reserved - Grant Programs	35,885	15,343	51,228
Reserved - Homebuyers Revolving Loan Program	-	398	398
Unreserved	-	6,329	6,329
Total retained earnings	<u>35,885</u>	<u>22,070</u>	<u>57,955</u>
Total equity	<u>35,885</u>	<u>24,570</u>	<u>60,455</u>
Total liabilities and equity	<u>\$ 36,392</u>	<u>\$ 30,581</u>	<u>\$ 66,973</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
OTHER SUPPLEMENTARY INFORMATION
SUPPLEMENTARY BALANCE SHEET - MORTGAGE FINANCE PROGRAM
JUNE 30, 2000
(Expressed in Thousands)

	Mortgage Finance Bond	General Fund	Mortgage Finance Bond Group Total*	Escrow Fund**	Mortgage Finance Program Total
<u>ASSETS</u>					
Current assets:					
Cash and cash equivalents	\$ 17,325	\$ 1,861	\$ 19,186	\$ 1,079	\$ 20,265
Short-term investments	16,389	551	16,940	-	16,940
Receivables:					
Accounts	3,451	88	3,539	-	3,539
Interest	5,509	996	6,505	196	6,701
First mortgage loans	10,041	580	10,621	-	10,621
Total current assets	52,715	4,076	56,791	1,275	58,066
Other assets:					
Long-term investments	100,011	48,978	148,989	11,777	160,766
First mortgage loans receivable	379,607	13,339	392,946	-	392,946
Deferred charges	2,816	-	2,816	-	2,816
Total other assets	482,434	62,317	544,751	11,777	556,528
Total assets	\$ 535,149	\$ 66,393	\$ 601,542	\$ 13,052	\$ 614,594
<u>LIABILITIES AND EQUITY</u>					
Liabilities:					
Current liabilities:					
Accounts payable and accruals	\$ 66	\$ -	\$ 66	\$ -	\$ 66
Interest payable	14,613	-	14,613	-	14,613
Escrow deposits payable	-	395	395	13,737	14,132
Prepayments on mortgage loans	423	22	445	-	445
Deferred revenue	17	32	49	-	49
Due to other funds	38	-	38	-	38
Bonds payable	23,615	-	23,615	-	23,615
Total current liabilities	38,772	449	39,221	13,737	52,958
Noncurrent liabilities:					
Bonds payable	460,185	-	460,185	-	460,185
Less: Unamortized bond refunding costs	(558)	-	(558)	-	(558)
Total noncurrent liabilities	459,627	-	459,627	-	459,627
Total liabilities	498,399	449	498,848	13,737	512,585
Equity:					
Retained earnings:					
Reserved - Grant Program	-	4,800	4,800	-	4,800
Reserved - Program Bonds	-	-	-	-	-
Unreserved	36,750	61,144	97,894	(685)	97,209
Total retained earnings	36,750	65,944	102,694	(685)	102,009
Total equity	36,750	65,944	102,694	(685)	102,009
Total liabilities and equity	\$ 535,149	\$ 66,393	\$ 601,542	\$ 13,052	\$ 614,594

* The Mortgage Finance Bond Group Total represents the funds pledged to the Mortgage Finance Program Resolution.

** The Escrow Funds can only be used for escrow payments.